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Message Text

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ACTION EA-12

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TAGS:
SUBJECT: TITLE III PL 480 INDONESIA

REF: (A) STATE 147845; (B) JAKARTA 7192; (C) THE HAGUE 2825

1. MISSION APPRECIATES UPDATE ON TITLE III SITUATION. PER-
CEPTION CORRECT THAT TITLE III PROGRAM BASED ON POLICY CHANGES
IS NOT A VIABLE OPTION AT THIS TIME BECAUSE SMALL TITLE III
PROGRAM WOULD NOT BE SUFFICIENT INCENTIVE TO LEVERAGE GOI
POLICY CHANGE AND PENDING IBRD STUDY THERE IS NOT ADEQUATE
INFO ON WHICH TO BASE DECISION FOR POLICY CHANGE. PPC ALTER-
NATIVE TO PROCEED NOW WITH LIMITED TITLE III PROGRAM BASED
ON SEDERHANA OR OTHER PROJECTS SUCH AS RURAL WORKS, RURAL
ELECTRIFICATION AND FEEDER ROADS IS CONSIDERED BEST ALTERNATIVE.
SINCE GOI WOULD NOT BE INTERESTED IN A VERY SMALL PROGRAM,
WE PRESUME LIMITED IS REFERENCE TO NUMBER OF PROJECTS
INVOLVED AND INCLUSION OF ONLY PART OF TITLE I PROGRAM
AS A STARTING POINT FOR TITLE III PROGRAM.

2. THE QUESTION OF ADDITIONALITY IN THE TITLE III PROGRAM
IS A COMPLEX AND DIFFICULT ISSUE, PARTICULARLY SINCE
TITLE I SALES PROCEEDS ARE DEPOSITED TO THE DEVELOPMENT
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BUDGET AND ALREADY HELP FINANCE HIGH PRIORITY GOI DEVELOPMENT
PROGRAMS AND PROJECTS. IN FY78, IN ORDER TO ESTABLISH
CLOSER LINKAGES BETWEEN TITLE I AND SPECIFIC DEVELOPMENT
ACTIVITIES, TITLE I SALES PROCEEDS WERE ATTRIBUTED TO
SPECIFIC DEVELOPMENT PROJECTS THAT DIRECTLY ASSIST THE
RURAL AND AGRICULTURAL SECTORS. THE SELECTED PROJECTS ARE:
IRRIGATION TERTIARY AND QUARTERNARY CANAL CONSTRUCTION,

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SMALL AND MEDIUM SCLARE IRRIGATION, FARM TO MARKET FEEDER
ROADS AND AGRICULTURAL EDUCATION AND TRAINING. IF ONE
WERE TO TRY TO APPLY THE ADDITIONALITY CRITERIA TO THESE
PROJECTS IT WOULD ALSO BE A DIFFICULT CASE TO MAKE. FOR
EXAMPLE, IF TITLE I SALES PROCEEDS WERE NOT MADE AVAILABLE
FOR THESE PROJECTS, IT IS LIKELY THAT THESE PRLJECTS WOULD
STILL CONTINUE BUT OTHER ADJUSTMENTS MIGHT OCCUR BECAUSE OF
THE REDUCTION OF GOI REVENUES. THESE PROJECTS COULD BE
SCALED DOWN, SLOWED DOWN OR THE REDUCTION COULD IMPACT ON
AN ENTIRELY DIFFERENT SET OF PROJECTS. FUNGIBILITY OF
GOVERNMENT REVENUES WILL ALWAYS CREATE DIFFICULTIES IN
DEMONSTRATING ADDITIONALITY IN TITLE III OR TITLE I PROGRAMS.

3. WHILE DEMONSTRATING ADDITIONALITY IN THE STRICTEST
SENSE, MAY BE QUITE DIFFICULT, IT IS NOT DIFFICULT
TO DEMONSTRATE THAT SEDERHANA, RURAL WORKS, FEEDER ROADS
AND RURAL ELECTRIFICATION HAVE HAD OR WILL HAVE SIGNI-
FICANT ADDITIONAL EFFECTS ON THE RURAL SECTOR AND FOOD
PRODUCTION. IN ADDITION, THE INVOLVEMENT OF USAID IN
THESE PROJECTS IS A SIGNIFICANT FACTOR WHICH HAS EITHER
ENHANCED THE EFFECTIVENESS OF THESE PROJECTS OR HAS PLAYED
A MAJOR ROLE IN THE DEVELOPMENT OF THESE PROGRAMMATIC AREAS
IN THE GOI DEVELOPMENT PLANS.

4. USAID INVOLVEMENT IN THESE DEVELOPMENT PROJECTS IS
CONSIDERED ONE OF THE MAJOR REASONS FOR THE SUCCESSFUL
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EXPANSION OF THE PROGRAMS. THE REASONS MOST OFTEN IDENTIFYIED
FOR THIS ARE THE THOROUGH PLANNING AND PROGRAM DESIGN
THAT PRECEDES AID FINANCING AND THE LARGE AMOUNTS OF TECHNICAL
ASSISTANCE THAT IS USUALLY INCLUDED IN AID PROJECTS.
THE TECHNICAL ASSISTANCE COMPONENTS HELP THE GOI DEVELOP THE
INSTITUTIONAL CAPACITY TO INCREASE DEVELOPMENT PROGRAMS BEYOND
THE DIMENSIONS THEY WOULD OTHERWISE TAKE.

5. SEDERHANA IRRIGATION: THE SEDERHANA PROGRAM WAS INITIATED
BY THE GOI IN 1974. USAID HAD BEEN INVOLVED WITH THE
PROJECT ALMOST SINCE ITS BEGINNING. THE SEDERHANA I
LOAN WAS SIGNED IN 1975 AND SINCE THIS TIME USAID HAS BEEN
INSTRUMENTAL IN SHAPING THE PROGRAM AND IMPROVING ITS EFFECT-
IVENESS. THIS USAID PROJECT UPON COMPLETION WILL HAVE
IRRIGATED ABOUT 153,000 GROSS CROP HA OF LAND WITH NEW OR
IMPROVED SEMI-TECHNICAL IRRIGATION SYSTEMS. THE
EVALUATION OF SEDERHANA I WHICH WAS JUST COMPLETED BY THE
EVALUATION TEAM HEADED BY CLIVE GRAY, FOUND THAT THE PROJECT
CAN BE EXPECTED TO YIELD SIGNIFICANT AGRICULTURAL, SOCIAL
AND ECONOMIC RETURNS UPON COMPLETION. THUS, UPON THE COMPLETION
OF PROJECT THERE WILL BE A NET ANNUAL INCREASE OF
400,000 MT OF MILLED RICE PRODUCED AND A SIGNIFICANT INCREASE

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IN EMPLOYMENT OPPORTUNITIES. DESPITE THE HIGH ECONOMIC RETURNS
TO INVESTMENTS IN THESE SIMPLE IRRIGATION SYSTEMS THERE IS
STILL SIGNIFICANT SCOPE FOR THESE ACTIVITIES AND EXPANSION
OF THE SYSTEM TO THE TERTIARY AND QUARTERNARY CANAL LEVEL
WILL REQUIRE MAJOR ADDITIONAL INVESTMENTS. THE USAID SEDERHANA II
PROJECT IS SLATED TO DEVELOP AN ADDITIONAL 150,000
HA OF IRRIGATED LAND BETWEEN AUGUST, 1978 AND 1983 AND SEDERHANA III
WILL ADD AN ADDITIONAL 180,000 HA OF LAND TO THE PROGRAM.
THE OVERALL INVESTMENT NEEDS TO DEVELOP ALL THE
LAND AREA SUITABLE FOR SEDERHANA TYPE IRRIGATION IS DIFFICULT
TO ESTIMATE BUT IT IS EASILY SEVERAL TIMES THE AMOUNTS NOW
AVAILABLE THROUGH THE DOMESTIC DEVELOPMENT BUDGET AND FOREIGN
ASSISTANCE.

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6. RURAL WORKS: THE RURAL WORKS PROGRAM IN INDONESIA IS AN
OUTGROWTH OF A RELATIVELY LARGE FOOD-FOR-WORK PROGRAM BASED
ON TITLE II AND OTHER FOOD COMMODITIES. IN 1975, THE GOI
DECIDED TO CONVERT THE PROGRAM TO A CASH-FOR-WORK PROGRAM
WITH THE MAJOR OBJECTIVE OF PROVIDING INCOMES AND TEMPORARY
EMPLOYMENT FOR THE POOR RURAL AREAS DURING THE SLACK EM-

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PLOYMENT PERIODS. USAID INVOLVEMENT BEGAN IN 1975 AND
LARGELY THROUGH THE EFFORTS OF USAID TECHNICIANS THE PRO-

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GRAM HAS BEEN TRANSMFORED INTO ONE WITH SOME LONGER RANGE
DEVELOPMENTAL IMPACT AS WELL AS THE SOCIAL BENEFITS OF
THE EARLIER PROGRAM. SOUND ENGINEERING AND TECHNICAL
CRITERIA HAVE BEEN ADDED, PROJECT SELECTION CRITERIA HAVE
BEEN IMPROVED AND, AS A RESULT, THE PROGRAM IS TRULY DE-
VELOPMENTAL. RURAL WORKS I HAS FINANCED: 527 VILLAGE ROAD
PROJECTS WHICH CONSTRUCTED 3,589 KM OF RURAL ACCESS ROADS;
322 IRRIGATION AND FLOOD CONTROL PROJECTS WHICH INCLUDED
2,100 KM OF CANALS SERVING 136,000 HA OF AGRICULTURAL LAND;
AND 58 TERRACING AND REFORESTATION PROJECTS COVERING 5,500
HA OF LAND. THE VILLAGE ROADS HAVE HELPED FARMERS BY IM-
PROVING ACCESS TO MARKETS AND REDUCING THE COSTS OF TRANS-
PORTATION FOR FARM PRODUCTS AND INPUTS. THIS IS NO SMALL
FACTOR IN A COUNTRY WHERE POOR ROADS CAN INCREASE TRANS-
PORTATION COSTS TO THE POINT WHERE IT DOUBLES OR TRIPLES THE
PRICE OF THE COMMODITIES INVOLVED. WHEN ALL OF THE PLANNED
IRRIGATION WORK IS COMPLETED IT IS CONSERVATIVELY ESTIMATED
THAT AT LEAST 300,000 MT OF ADDITIONAL RICE ANNUALLY WILL
BE PRODUCED IN THE PROJECT AREAS. THIS IS SUFFICIENT TO
FEED 1.2 MILLION INDONESIANS. IN ADDITION, THE LABOR
OPPORTUNITIES FOR AGRICULTURE WILL INCREASE BY ABOUT 60
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PERCENT PER ANNUM.DURING WORKS I THE NUMBER
OF KECAMATANS INVOLVED INCREASED RAPIDLY FROM 100 IN
FY 75 TO 480 IN FY 78, AS THE INSTITUTIONAL CAPACITY OF
THE GOI EXPANDED.
RURAL WORKS II WILL FOCUS ON A MAJOR EXPANSION OF THE
INSTITUTIONAL CAPACITY OF THE GOITO FURTHER EXPAND THE
PROGRAM. THIS MEANS THAT THE PROGRAM WILL BE MAINTAINED
AT ABOUT THE 500 KECAMATAN LEVEL UNTIL A FURTHER GEO-
GRAPHIC EXPANSION IS WARRANTED. THE NUMBER OF SUB-PROJECTS
IN THESE PROJECTS ARE SCHEDULED TO INCREASE ACCORDING TO
THE AVAILABILITY OF FUNDING AND THUS AN OPPORTUNITY TO
EXPAND THE PROGRAM WITH TITLE III RESOURCES.

7. FEEDER ROADS: INDONESIA HAS A VERY LOW ROAD DENSITY
SERVING A VERY LARGE POPULATION COMPARED WITH OTHER DEVELOP-
ING COUNTRIES IN ASIA. AS A RESULT, MOST RURAL VILLAGES
HAVE LIMITED ROAD ACCESS, 21 PERCENT OF THE VILLAGES ON
JAVA HAVE NO VEHICLE ACCESS ROADS TO THEMAIN HIGHWAYS
AND 30 PERCENT OF THE VILLAGES OUTSIDE JAVA HAVE NO SUCH
ACCESS. THE ADMINISTRATION OF THE PUBLIC HIGHWAY SYSTEM IN
INDONESIA IS ORGANIZED ON A THREE TIER SYSTEM. THE CENTRAL
GOVERNMENT, THROUGH THE DIRECTORATE GENERAL OF HIGHWAYS, IS
RESPONSIBLE FOR NATIONAL HIGHWAYS AND MAJOR PROVINCIAL ROADS
OF NATIONAL IMPORTANCE. THE PROVINCIAL PUBLIC WORKS IS
RESPONSIBLE FOR PROVINCIAL ROADS AND RESPONSIBILITY FOR
RURAL ROADS IS DELEGATED TO THE KABUPATEN (DISTRICT) PUBLIC
WORKS. THE GOVERNMENT INSTITUTIONS RESPONSIBLE FOR NA-

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TIONAL AND PROVINCIAL ROADS HAVE CONSIDERABLE EXPERIENCE
AND EXPERTISE REQUIRED TO CARRY OUT THEIR RESPONSIBILITIES.
IN ADDITION, THERE HAS BEEN CONSIDERABLE FOREIGN CAPITAL
AND TECHNICAL ASSISTANCE DIRECTED AT IMPROVING THE NATIONAL
AND PROVINCIAL ROAD NETWORKS THROUGH USAID, THE WORLD BANK,
ADB, AND OTHER BILATERAL DONORS.
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DURING REPELITA I AND II THERE HAS BEEN LITTLE ATTENTION FO-
CUSSED ON THE KABUPATEN PUBLIC WORKS (KPW) AND THEIR RESPONSI-
BILITY FOR RURAL ROADS. THE RESULT IS THAT THE KPW HAVE FEW,
IF ANY, PERSONNEL EXPERIENCED IN ROAD DESIGN, CONSTRUCTION
AND MAINTENANCE. THE PAST EXPERIENCE HAS BEEN THAT THE RE-
LATIVELY SMALL AMOUNT OF RURAL ROADS CONSTRUCTED OR IMPOROVED
HAVE RAPIDLY RETURNED TO THEIR EARLIER STATE OF BEING IM-
PASSABLE FOR MUCH OF THE YEAR. UNTIL NOW, THE GOI AND FOR-
EIGN DONORS HAVE NOT ATTACKED THIS PROBLEM BECAUSE OF HIGHER
PRIORITY ASSIGNED TO OTHER ACTIVITIES AND THE IMMENSE AD-
MINISTRATIVE AND FINANCIAL BURDENS OF ATTACKING THIS PROBLEM
ON A NATIONWIDE BASIS.
THE LACK OF AN ADEQUATE RURAL ROAD INFRASTRUCTURE HAS LEFT
LARGE AND SMALL POCKETS OF THE POPULATION ISOLATED OR IN-
ACCESSIBLE FOR PARTS OF THE YEAR. FARMERS OFTEN ARE UNABLE
TO OBTAIN INPUTS AT REASONABLE PRICES AND CANNOT COMPETE IN
THE URBAN MARKETS BECAUSE OF THE ADDED BURDEN OF EXPENSIVE
TRANSPORT COSTS. A RURAL ROAD NETWORK WOULD YIELD SIGNI-
FICANT AGRICULTURAL GAINS AS WELL AS SOCIAL GAINS SUCH AS
BETTER ACCESS TO HEALTH AND EDUCATIONAL FACILITIES.
USAID HAS PROPOSED A FEEDER ROADS MANAGEMENT PROJECT TO
BEGIN IN FY 80. THE PURPOSE OF THIS PROJECT IS TO IM-
PROVE THE TECHNICAL CAPACITY TO PLAN, DESIGN, CONSTRUCT
AND MAINTAIN A NATIONAL NETWORK OF RURAL ACCESS AND FARM
TO MARKET ROADS. THE ACTUAL CONSTRUCTION PHASE OF THIS
PROGRAM WILL BEGIN AFTER THE USAID TECHNICAL ASSISTANCE
PROJECT. THIS EFFORT IS NEW AND WILL BE ADDITIVE TO THE
EXISTING DEVELOPMENT ACTIVITIES OF THE GOI. THIS PROGRAM
WILL BE IDEAL FOR A TITLE III EFFORT SINCE IT WILL MEET
THE BASIC ADDITIVITY REQUIREMENT AND WILL ALSO HAVE AN
IMPORTANT IMPACT ON AGRICULTURAL PRODUCTION BY REDUCING
TRANSPORT COSTS FOR INPUTS AND THE RESULTING AGRICULTURAL
PRODUCTION.

8. RURAL ELECTRIFICATION. ELECTRIC POWER CONSUMPTION IN
INDONESIA IS THE LOWEST PER CAPITA OF ANY MAJOR COUNTRY IN
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THE WORLD, 46 KWH PER YEAR AS COMPARED WITH 300 KWH IN THE PHILIPPINES. THE MAJORITY OF THIS POWER IS CONSUMED IN URBAN AREAS BY INDUSTRIAL AND COMMERCIAL ENTERPRISES AND WEALTHIER RESIDENTS IN MAJOR CITIES. THE USAID/RURAL ELECTRIFICATION I PROJECT IS DESIGNED TO BE A MODEL FOR A MAJOR EXPANSION OF RURAL ELECTRIFICATION THROUGHOUT INDONESIA. HERE HAVE BEEN SOME ISOLATED PROJECTS TO CREATE RURAL ELECTRIFICATION PROJECTS BUT ALL OF THESE PROJECTS HAVE BEEN OF LIMITED EFFECTIVENESS AND GENERALLY

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NOT TRANSFERRABLE TO OTHER AREAS OF INDONESIA BECAUSE OF A NUMBER OF PROBLEMS, INCLUDING: INADEQUATE SOURCE OF POWER, INCOMPLETE PLANNING, HIGH COST CONSTRUCTION TECHNIQUES, POR MANAGEMENT, HIGH CONNECTION CHARGES AND SERVICE FOR ONLY PART OF THE DAY. THE TECHNIQUES BEING DEVELOPED AND TESTED IN USAID RURAL ELECTRIFICATION I ARE PLANNED SO THAT THEY CAN BE APPLIED ON A BROAD SCALE THROUGHOUT THE COUNTRY AND RESULT IN THE EFFICIENT DISTRIBUTION OF AFFORDABLE ELECTRICITY TO CONTIGUOUS RURAL AREAS. THIS APPROACH WILL TEND TO MAXIMIZE PRODUCTIVE ECONOMIC AS WELL AS SOCIAL BENEFITS.
THE GOI IS EXPECTED TO PLACE A HIGH PRIORITY ON THE EXPANSION OF THIS PROGRAM, DURING REPELITA III, AS ONE OF THE MORE EFFECTIVE WAYS TO DELIVER THE FRUITS OF DEVELOPMENT TO RURAL AREAS. THE DEVELOPMENT OF THIS PROGRAM IS LARGELY DEPENDENT UPON THE TECHNICAL ASSISTANCE THAT HAS BEEN SUPPLIED THROUGH THE USAID PROJECT. THIS PROGRAM IS CLEARLY A NEW ADDITION TO THE OVERALL GOI DEVELOPMENT PROGRAM AND WILL REQUIRE SUBSTANTIAL FINANCIAL SUPPORT THROUGH-

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OUT REPELITA III. WITH OR WITHOUT TITLE III SUPPORT THIS
PROGRAM WILL GROW BUT THE PROGRAM WILL BE LARGER AND THE
EFFECTIVENESS WILL BE ENHANCED THROUGH THE CONTINUED IN-
VOLVEMENT OF USAID VIA TITLE III AND DOLLAR FUNDED PROJECTS.
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RURAL ELECTRIFICATION WILL HAVE A MAJOR IMPACT ON THE
SOCIAL AND ECONOMIC DEVELOPMENT OF THE RURAL AREAS.
IN ADDITION TO THE OBVIOUS SOCIAL AND ECONOMIC BENEFITS
USUALLY ATTRIBUTED TO IT, THERE WILL BE A SIGNIFICANT IMPACT
ON AGRICULTURAL PRODUCTION ANDPROCESSING. BASED ON SURVEY
ANALYSIS FROM THE USAID PROJECT PAPER, 60 PERCENT OF THE
PROJECT AREA RESIDENTS ARE PRIMARILY FARMERS WITH LESS THAN
.5 HA OF LAND PER FAMILY (AVERAGE). THESE FARMERS WILL
BENEFIT AND FOOD PRODUCTION WILL INCREASE THROUGH INCREASED
USE OF PUMP IRRIGATION, GRAIN DRYERS, RICE HULLERS AND OTHER
FOOD PROCESSING EQUIPMENT. IT IS ESTIMATED THAT OVER 150,000
HA OF LAND COULD BENEFIT BY USING PUMP IRRIGATION IN THE USAID
PROJECT AREAS. A CONSERVATIVE ESTIMATE OF THE ADDITIONAL
RICE PRODUCTION FROM THIS AREA IS ABOUT 300,000 MT OF RICE
PER YEAR. LOSS FROM SPOILAGE IS KNOWN TO BE HIGH AND THE
USE OF ELECTRIC GRAIN DRYERS COULD FURTHER INCREASE FOOD
AVAILABLE FOR CONSUMPTION. ELECTRIC POWER COULD ALSO BE
USED TO REDUCE THE MILLING COSTS OF SAGU WHICH IS USED TO
MAKE A NUTRITIOUS BISCUIT. THE LOCAL FISHING INDUSTRY IS
SEVERELY LIMITED IN ITS PRODUCTION FOR LOCAL CONSUMPTION AND
FOR EXPORT BECAUSE OF A LACK OF ICE AND COLD STORAGE FACI-
LITIES. THERE ARE OBVIOUS SIZEABLE NUTRITIONAL AND POTENTIAL
INCOME EFFECTS WHICH WILL RESULT FROM THE AVAILABILITY OF
RELIABLE AND EFFICIENT ELECTRICAL POWR IN RURAL AREAS.
OTHER BENEFITS TO BE DERIVED FROM RURAL ELECTRIFICATION
HAVE BEEN REPORTED IN THE PROJECT PAPER AND IN JAKARTA 1331.

9. THE MISSION HAS CAREFULLY CONSIDERED THE PROJECT ALTER-
NATIVES FOR AN EFFECTIVE TITLE III PROGRAM AND BELIEVES THAT
THERE IS SUFFICIENT EVIDENCE OF ADDITIONALITY AND A SIGNI-
FICANT IMPACT ON FOOD PRODUCTION IN EACH OF THE PROPOSED
PROGRAM AREAS: SEDERHANA IRRIGATION; RURAL WORKS; RURAL
ELECTRIFICATION AND FEEDER ROADS. IN CONSIDERING THE ADDI-
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TIONALITY CRITERIA IT IS ALSO IMPORTANT TO CONSIDER THE
UNIQUE ASPECT THE USAID TECHNICAL ASSISTANCE IS PROVIDING
TO THE OVERALL GOI PROGRAMS. IN EACH OF THE PROPOSED PRO-
GRAM AREAS USAID WILL HAVE TECHNICIANS IN COUNTRY AND WILL
BE ABLE TO INCREASE THE OVERALL EFFECTIVENESS OF THE PRO-

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JECTS. SINCE TITLE III WOULD INCREASE THE RESOURCES AVAIL-
ABLE FOR THESE ACTIVITIES, THERE AR CLEAR ADVANTAGES IN
SUPPORTING THESE PROGRAMS.

10. APPRECIATE WASHINGTON CONCERN OVER ISSUE OF ADDITIONALITY
BUT BELIEVE IT IS ALSO IMPORTANT TO CONSIDER THE OTHER ASPECTS
OF TITLE III PAPER CARRIED BY NIBLOCK. PAPER OUTLINED PROPOSED
PROCEDURES FOR DEALING WITH IMPLEMENTATION, MONITORING, RE-
PORTING AND AUDITING REQUIREMENTS OF LEGISLATION. REQUEST
THAT WASHINGTON AGENCIES FOCUS ON THESE OTHER ISSUES AS
WELL AND ADVISE ASAP SO THAT MISSION WILL BE IN POSITION
TO NEGOTIATE ALL ASPECTS OF TITLE III PROGRAM. DECONTROL
FOLLOWING 6/15/79.
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